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Consumer Federation of America



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October 31, 2002

Harvey L. Pitt
Chairman
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Dear Chairman Pitt:

In light of today's revelations in the *New York Times* about William Webster's tenure as chair of the audit committee for U.S. Technologies, we are writing to urge you to persuade Mr. Webster to resign his appointment as chairman of the new auditor oversight board. The public needs to be able to trust that this board will act aggressively to raise the quality of audits at public companies. Clearly, despite his years of public service, Mr. Webster is not the person to inspire that trust.

No one is accusing Mr. Webster of having done anything illegal. However, there is no question that he showed extremely poor judgment, as head of the U.S. Technologies audit committee, in failing to demand a full investigation into allegations by the outside auditor that there were serious problems with internal controls at the company. That the auditor was dismissed soon thereafter creates a very unfortunate appearance, particularly since one of the issues the new oversight board will need to address is the willingness of auditors to turn a blind eye to problems at the companies they audit for fear of losing the audit contract. Finally, it is a troubling commentary on the quality of board oversight that U.S. Technologies was de-listed by NASDAQ during Mr. Webster's tenure on the audit committee for failing to make timely filings with the SEC.

To his credit, Mr. Webster apparently raised these issues with both you and Chief Accountant Robert Herdman before his appointment. He apparently had the good judgment to realize that they might become "an issue." It is frankly inconceivable that you did not also recognize the problem. Worse, your failure to order a thorough SEC review of the events in question and your failure to inform the other commissioners so that they could form their own judgment have left the integrity of the board selection process fatally compromised. It also gives new credence to concerns raised by Commissioner Goldschmid that board candidates had not been adequately vetted.

Mr. Webster apparently suggested before his appointment that he would step aside in order to avoid having this become an issue. It was an honorable suggestion on his part. We suggest that it is now incumbent on the Commission to accept that offer and ask him to step down. At the same time, all other board members should immediately be subject to the thorough vetting process that was apparently not a part of the board selection process. Because the office of the chief accountant apparently decided to substitute its own judgment about the seriousness of these issues for the commissioners' judgment, the staff must be instructed to inform all commissioners of any issues that arise during that process that might conceivably be viewed as raising questions about the individual's fitness to serve on the board.

In order to minimize any delays in board formation that this unfortunate incident might cause, we also urge the Commission to appoint John Biggs as chairman, subject of course to appropriate vetting, since he has already apparently been approved by the Treasury Secretary and Federal Reserve Chairman. Mr. Biggs has been hailed by individuals from across the political spectrum as the best possible candidate for chairman. Of particular importance, he has the reform credentials that are needed now more than ever to restore some credibility to this new board, credibility that has been severely damaged by recent events.

Respectfully submitted,

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